

VZCZCXYZ0000
RR RUEHWEB

DE RUEHSA #2508/01 1710433
ZNR UUUUU ZZH
R 200433Z JUN 06
FM AMEMBASSY PRETORIA
TO RUEHC/SECSTATE WASHDC 4065
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUCPCIM/CIMS NTDB WASHDC
RUCPDC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS PRETORIA 002508

SIPDIS

SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR OAISA/RALYEA/CUSHMAN
USTR FOR COLEMAN

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [EFIN](#) [ETRD](#) [BEXP](#) [KTDB](#) [PGOV](#) [SF](#)

SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER JUNE 15 2006
ISSUE

11. Summary. Once every two weeks, Embassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- South African Reserve Bank (SARB) Raises Interest Rates;
 - SARB Reserves Growth Rate Declines;
 - Johannesburg Stock Exchange Publicly Listed;
 - Housing Market Falls to 6-yr Low; Vehicle Sales and Manufacturing Output Decline;
 - Sasol Opens World's Largest Gas-to-Liquid Plant;
 - Government Has No Intention to Relax Employment Equity Requirements;
 - PriceWaterhouseCoopers Releases Annual Survey of S.A. Insurance; and
 - Tax Amnesty Extended for Small Business.
- End Summary.

South African Reserve Bank (SARB) Raises Interest Rates

12. The South African Reserve Bank unexpectedly hiked interest rates 50 basis points on June 8, demonstrating government resolve against rising inflation and halting the rand's fall against the dollar. South Africa maintains a CPIX (CPI excluding mortgage costs) inflation target between 3 and 6 percent, a goal that it has met consistently since 2002. Higher interest rates, however, threaten to damage the country's already-stumbling manufacturing sector and cool the expanding construction and housing markets. The JSE responded to the surprise increase with the largest one-day drop (6.88%) since the internet bubble burst in April 2000, recovering all but 1.8% of the initial drop by the end of the week, then falling again in the following week. South African real interest rates (repurchase rate deflated by CPI) are 2.4 percentage points above equivalent U.S. real interest rates. South Africa's real repurchase rate is now 3.8% (7.5% deflated by 3.7% CPI inflation in May, while the real U.S. federal funds rate is 1.4% (5% federal funds rate deflated by 3.6% U.S. May CPI inflation). Source: Business Day, Forbes.

SARB Reserves Growth Rate Declines

13. The SARB acquired \$258 million in reserves during May,

barely half of the average \$500 million per month added since the beginning of 2005. The SARB, however, declared that slower reserves growth is in line with its policy of augmenting reserves when the exchange rate is favorable; the rand fell significantly against the dollar last month. Net reserves now stand at roughly US \$20.36 billion. Source: Business Day.

Johannesburg Stock Exchange Publicly Listed

¶4. The Johannesburg Stock Exchange (JSE), the world's 16th largest stock exchange, publicly listed its shares for the first time on June 5. The price-to-earnings ratio of its stock (20.5) is nearly twice that of the average JSE-listed company, part of a world-wide trend of high interest in stock exchange stocks. Source: Financial Mail, Business Day

Housing Market Growth Falls to 6-yr Low; Vehicle Sales and Manufacturing Output Decline

¶5. According to the June 5 Absa house-price index, rising household debt and expectations of an interest-rate hike cooled the housing market in May. Though house prices were still 12.3% higher than in May 2005, that figure represents a decline from the 13.2% growth in the year leading up to April 2006. The National Association of Automobile Manufacturers of South Africa (NAAMSA) reported on June 5 that although the market is still robust, vehicle sales are slowing. NAAMSA members, representing roughly 90% of vehicle sales in South Africa, reported 15.2% growth between April 2005 and April 2006. Of the NAAMSA vehicle categories, sales of heavy trucks increased most (16.7%). Vehicle exports continued to increase dramatically: 65% higher in 2006 than first quarter 2005. Statistics SA released data on June 7 showing a sharp April contraction in manufacturing, the economy's second-largest sector. Economists attribute the slowdown-2% month-on-month-to April's strong rand. The SARB's interest-rate hike is likely to further inhibit manufacturing. Source: Business Day, Financial Mail

Sasol Opens Worlds Largest Gas-to-Liquid Plant

¶6. The South African energy company Sasol, along with its partner Qatar Petroleum, formally opened their new Oryx GTL (gas-to-liquid) plant on June 5. Sasol expects the \$950 million facility to produce 34,000 barrels a day of liquids from natural gas, rising ultimately to 100,000 barrels daily. Sasol's GTL technology, developed during the apartheid-era oil embargo of South Africa and honed in a 2000 joint venture with Chevron, already operates profitably in two smaller plants in South Africa itself. The company overall provides 40% of the country's liquid fuel through GTL and coal liquification. Sasol plans a Nigerian plant similar to that in Qatar, to be in place by mid-2009. Source: Business Report, June 7; Engineering News, June 8; Sunday Times, June 11.

Government Has No Intention to Relax Employment Equity Requirements

¶7. Deputy President Mlambo-Ngcuka said that the government had no intention of relaxing employment equity requirements to allow qualified whites to take up vacancies, but would rather use them to mentor those who lacked skills. The present BEE (affirmative action) program intends to correct the race-skewed employment composition inherited from apartheid. Employment equity is one of the seven criteria to be measured to rate a firm's contribution to BEE. BEE has been criticized by many business leaders and the opposition Democratic Alliance for hampering business and for failing to adequately address the country's shortage of skilled workers.

Source: Business Day, June 8; Independent, June 15

PriceWaterhouseCoopers Releases Annual Survey of S.A.
Insurance

¶8. A new survey, titled Emerging Trends and Strategic Issues in South African Insurance, shows major changes in the industry stemming from regulatory change and a spate of bad publicity over the last year. Prices are likely to fall and fees will be more transparent as firms compete to rebuild public trust and business. It also projects that large foreign insurers, as yet unrepresented in South Africa, will make a major impact in coming years. Source: iAfrica, Sunday Times, June 14.

Government Extends Tax Amnesty for Small Businesses

¶9. In an effort to bring more companies into regular tax compliance, Finance Minister Trevor Manuel expanded a tax amnesty for small to medium-sized businesses with an annual turnover of up to R10 million (under \$1.5 million). The plan would waive all penalties and taxes for qualifying companies and individuals in exchange for a one-time penalty not exceeding 5% of their 2005-2006 taxable income. The exact percentage is calculated on a graduated scale. Previously, the government's tax amnesty offer only covered businesses with net annual income of R5 million or less and levied penalties of up to 10%. Manuel's initiative particularly targets the country's large informal sector, including taxi drivers, stall owners, and illegal bars. A rough estimate by the National Treasury is that 100,000 businesses in South Africa qualify. Manuel further threatened those choosing to ignore the extended amnesty offer with harsh penalties when it expires in May 2007. Source: Mail and Guardian, SABC, June 14.

Business Confidence Falls, Though Still High

¶10. According to the Bureau for Economic Research (BER), business confidence in South Africa slipped from 86 to 82 in the second quarter of 2006, though levels are still historically high and stable. The drop reflects an expected cooling of consumer spending, which has increased dramatically over the last two years, a weaker rand, rising interest rates, and falling share and gold prices. The BER projects a mild economic slowdown through the remainder of the year. (iAfrica, Business Day, June 15)

TEITELBAUM